Jewel Companies, Inc.

Annual Report 1970

Financial Section

Jewel Companies, Inc.
Growth of a Management Style

The years 1960-1970 marked the most significant growth in Jewel's history. The efforts of Jewel people added one billion dollars to our annual sales volume as we grew into a diversified retailing family of many companies throughout the United States and in foreign countries and as we developed extensive manufacturing facilities. And, this period of our dramatic growth required flexibility in keeping with significant changes in America's life style. Jewel people sensed the changing trends and adapted our businesses to new values that emerged in our society.

Thus, it is not surprising that in ten years Jewel's management organization has evolved from a single corporate center of operating control to a concept of distinct operating companies, each challenged to build upon its particular strengths, make its own operating decisions and accept its profit responsibility. In turn, corporate management is no longer the operating command post but primarily concerns itself with the ultimate responsibility for the direction and the success of Jewel Companies, Inc.

The resultant management style is living up to its promise of being the catalyst to stimulate competition for excellence and growth within our companies. We believe, too, that the inter-relationship of the Jewel companies, with their common dedication to customer-oriented retailing, produces a practical synergism that helps explain our progress and supports our optimism.

A management system such as ours requires a set of underlying principles, the practice of which helps assure that no Jewel profit center acts independently of concern for other centers of Jewel people or of the qualities and standards which have built our corporate reputation in past years. In October, 1970 the presidents of each Jewel company and the corporate officers met in an attempt to define those relationships which could optimize our strengths. Out of those discussions we have identified simple principles which we think support the Jewel system of decentralization.

1. We subscribe to a style of management that spreads the authority for decision making to the broadest extent possible. This extension of authority results in two forms of responsibility:
   - An operating responsibility wherein each individual manager is judged by the results of his use of decentralized authority in his decision making, and
   - An ultimate responsibility which remains at the very top level of the organization wherein top management is judged by their choice of how much, how fast and, most particularly, to whom the decision-making authority is delegated.
2. Since we believe that decentralization enhances sensitivity to Jewel people, to the marketplace and to society, we encourage that degree of delegation of authority which is maximum yet permits no abdication of responsibility and which carries with it a commensurate degree of accountability. We do not forget that the rights that enure to individual Jewel companies under our decentralized style are, and should be, subservient to the interests of the whole of Jewel Companies, Inc.
3. We believe in supporting decentralized authority and responsibility with those centralized services which the separate companies cannot as economically or as effectively provide for themselves, giving consideration to the effect of such centralization on the spirit of autonomy held by the operating companies. Such services will change from time to time.
4. Communication is the heart of our management style. We recognize that to be effective communicators requires understanding of, and involvement in, the needs of our customers and fellow workers.
5. It is cooperation among our companies on behalf of the consumer and the shareholder that helps guarantee the high degree of autonomy desired by Jewel people.

The strength of Jewel has long been the strength of its people. The management of each Jewel company is committed to maintain an approach to decentralization consistent with the above principles. We feel that our concept of management serves to release individual energies and capabilities, fire the entrepreneurial spirit, stimulate creativity and satisfy the need for participation in exciting adventures. Perhaps no other development of the past is as singularly promising for the future.

W. R. Christopherson

W. R. Christopherson

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Accounting Principles Used In Preparation Of Financial Statements

To help our shareholders understand the accompanying financial statements, we have set forth below a brief description of some of the more significant accounting principles followed by the Company:

INVENTORIES

Inventories are valued at the lower of cost or market, with cost being determined on a first-in, first-out basis. Out-of-season and discontinued merchandise is reduced to expected realizable value.

PRE-OPENING COSTS

Those costs incurred prior to the opening of a new retail unit or other facility are known as "pre-opening expenses." The Company has followed the practice of charging such costs against income as they are incurred.

PROFIT SHARING AND RETIREMENT TRUSTS

Retirement funds for the benefit of employees are provided principally through profit-sharing retirement trusts. Amounts contributed to the trusts are based on earnings after providing for a basic return to shareholders. Retirement benefits are determined by the market value of the trusts and are fully funded. These funds amounted to approximately $144,000,000 at the end of 1970.

OTHER DEFERRED LIABILITIES

Costs associated with the Company's self-insurance and contingent compensation plans have been charged against current earnings. Such costs will be paid out over a period of years. That portion of these costs estimated to be payable in the ensuing year is included in Current Liabilities with the balance included in Other Deferred Liabilities.

DEFERRED FEDERAL INCOME TAXES

Deferred federal income taxes arise because of differences in timing in recognition of items of income and expense for tax purposes compared to their recognition in the financial statements. The primary differences occur in depreciation, credit sales, self-insured losses and contingent compensation.

Jewel Companies, Inc.
Consolidated Balance Sheet

Assets

	Jan. 30, 1971	Jan. 31, 1970
	(In thousands)	
Current Assets:		
Cash	**$ 22,774**	$ 17,139
Marketable securities and certificates of deposit, at cost which approximates market	**32,120**	24,098
Accounts receivable, less allowances ($996 and $489 respectively)	**22,426**	9,380
Inventories, at lower of first-in, first-out cost or market	**121,381**	110,058
Prepaid expenses and supplies	**4,932**	5,391
Total current assets	**203,633**	166,066
Investments (principally foreign affiliates)	**33,288**	29,128
Property, Plant and Equipment (at cost):		
Buildings	**107,988**	93,139
Equipment and leasehold improvements	**227,940**	197,930
	335,928	291,069
Less allowance for depreciation and amortization	**128,306**	115,062
	207,622	176,007
Land	**41,516**	34,354
Total property, plant and equipment	**249,138**	210,361
	$486,059	$405,555

Liabilities

	Jan. 30, 1971	Jan. 31, 1970
	(In thousands)	
Current Liabilities:		
Notes payable	**$ —**	$ 11,000
Accounts payable and accrued expenses	**110,599**	91,790
Accrued federal income tax	**9,953**	5,966
Long-term debt, due within one year:		
Obligations of Jewel Companies, Inc.	**741**	1,527
Obligations of real estate affiliates	**3,250**	2,854
Total current liabilities	**124,543**	113,137
Long-Term Debt, due after one year:		
Obligations of Jewel Companies, Inc.	**76,783**	59,024
Obligations of real estate affiliates	**61,615**	51,902
Deferred Federal Income Taxes	**16,969**	13,648
Other Deferred Liabilities	**4,291**	3,693
Shareholders' Investment:		
Preferred stock—3¾% cumulative $100 par value—authorized and issued 48,000 shares at Jan. 30, 1971	**4,800**	4,800
Common stock—$1 par value—authorized 15,000,000 shares, issued 7,313,596 shares at Jan. 30, 1971	**66,796**	42,415
Accumulated earnings—Reserved for self-insured losses and general contingencies	**1,250**	1,250
Accumulated earnings—Unappropriated	**130,321**	117,515
Treasury stock at cost	**(1,309)**	(1,829)
Total shareholders' investment	**201,858**	164,151
	$486,059	$405,555

See accompanying notes to consolidated financial statements and description of accounting principles.

Jewel Companies, Inc.

Consolidated Income Account

AND ACCUMULATED EARNINGS/UNAPPROPRIATED

	52 Weeks Ended Jan. 30, 1971	52 Weeks Ended Jan. 31, 1970
	(In thousands)	
Sales:		
Supermarkets	**$1,213,430**	$1,109,920
Drug Stores	**185,100**	160,456
Self-Service Department Stores	**110,012**	76,362
Direct Marketing Division	**81,039**	79,672
Restaurants	**16,826**	14,963
Wholesale sales and services	**22,089**	22,945
Total Sales	**1,628,496**	1,464,318
Cost of Doing Business:		
Cost of goods sold	**1,282,882**	1,154,491
Selling, general and administrative expense	**293,336**	262,368
Provision for doubtful accounts	**2,001**	1,872
	1,578,219	1,418,731
Operating Income	**50,277**	45,587
Foreign Income	**3,272**	1,129
Interest Income	**880**	746
Interest Expense:		
Obligations of Jewel Companies, Inc.	**(5,335)**	(3,440)
Obligations of real estate affiliates	**(3,586)**	(2,845)
Earnings Before Income Taxes	**45,508**	41,177
Provision for Income Taxes:		
State and local	**1,781**	1,261
Federal	**19,765**	18,499
Net Earnings for the Year	**23,962**	21,417
Per Common Share	*$3.36*	*$3.22*
Accumulated Earnings—Unappropriated, beginning of year	**117,515**	105,966
	141,477	127,383
Deduct:		
Cash dividends declared:		
Preferred stock	**110**	111
Common stock	**10,939**	9,757
Other transactions	**107**	—
	11,156	9,868
Accumulated Earnings—Unappropriated, end of year	**$ 130,321**	$ 117,515

See accompanying notes to consolidated financial statements and description of accounting principles.

Jewel Companies, Inc.
Consolidated Sources & Uses of Funds

	52 Weeks Ended Jan. 30, 1971	52 Weeks Ended Jan. 31, 1970
	(In thousands)	
Sources of Funds—		
From Operations:		
Net earnings	**$ 23,962**	$ 21,417
Less equity in undistributed earnings of unconsolidated affiliates	**1,325**	556
	22,637	20,861
Depreciation and amortization	**20,390**	17,630
Increase in deferred taxes and other deferred liabilities	**3,065**	3,473
	46,092	41,964
Sale or (purchase) of capital stock (net)	**24,794**	(43)
Increase in long-term debt (net):		
Jewel Companies, Inc.	**16,973**	19,679
Real estate affiliates	**10,109**	4,159
Increase in payables, accruals and taxes	**22,796**	7,404
	120,764	73,163
Uses of Funds—		
Dividends to owners of the business	**11,049**	9,868
New property, plant and equipment (net):		
Jewel Companies, Inc.	**37,749**	37,722
Real estate affiliates	**21,418**	7,399
Increase in inventories	**11,323**	12,993
Increase (decrease) in accounts receivable	**13,046**	(12,279)
Decrease (increase) in notes payable	**11,000**	(11,000)
Increase in investments	**1,981**	21,836
(Decrease) increase in prepaid expenses and supplies	**(459)**	885
	107,107	67,424
Increase in cash and marketable securities	**$ 13,657**	$ 5,739

See accompanying notes to consolidated financial statements and description of accounting principles.

Accountants' Report

TO THE SHAREHOLDERS AND BOARD OF DIRECTORS JEWEL COMPANIES, INC.:

We have examined the accompanying consolidated balance sheet of Jewel Companies, Inc. and subsidiaries and real estate affiliates as of January 30, 1971, and the related statements of income and accumulated earnings and sources and uses of funds for the fifty-two weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Jewel Companies, Inc. and subsidiaries and real estate affiliates at January 30, 1971, the consolidated results of their operations and the sources and uses of funds for the fifty-two weeks then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

MARCH 16, 1971

Touche Ross & Co.

Jewel Companies, Inc.

Notes To Consolidated Financial Statements

PRINCIPLES APPLIED IN CONSOLIDATION

The consolidated financial statements include the accounts of Jewel Companies, Inc., its wholly-owned subsidiaries and its affiliated real estate corporations. Jewel owns preferred stock convertible into 99% of the equity of the real estate affiliates. The equity of the Company in the net assets of the consolidated subsidiaries and affiliated real estate corporations is the same as the carrying amount of the investments. Substantially all intercompany transactions have been eliminated.

ACCOUNTS RECEIVABLE

As of the prior year end, the Company sold $13,909,000 of the Direct Marketing Division customer installment accounts receivable with recourse, in order to defer the payment of income taxes on the gross profit in installment accounts receivable beginning in 1970.

PROVISION FOR DEPRECIATION

Straight-line depreciation over the useful lives of depreciable property is used for financial statement purposes. The useful lives approximate 37 years for buildings, 3 years for passenger cars, 6 years for trucks and trailers, 10 years for equipment and 17 years for leasehold improvements.

The depreciation expense for the year as recorded in the accounts is as follows:

	1970	1969
	(In thousands)	
Jewel Companies, Inc.	$18,543	$16,143
Real estate affiliates	1,847	1,487
Total	$20,390	$17,630

INVESTMENTS

	Jan. 30, 1971	Jan. 31, 1970
Affiliates:	(In thousands)	
At cost plus equity in undistributed earnings since acquisition:		
MIDCO, S.A., Mexico, and its real estate affiliate (46.7%)	$25,097	$22,426
Mass Feeding Corporation (50.1%) and other domestic affiliates	1,948	–
At cost–Minority interest (18.2%) in G. B. Entreprises, S.A., Belgium (market value is approximately $16,000,000)	5,342	5,342
All other	901	1,360
	$33,288	$29,128

The carrying basis of the investment in MIDCO, S.A., Mexico, and its real estate affiliate exceeds the Company's equity in the book value of underlying net assets measured at the date of acquisition by approximately $14,750,000. The Company's equity in net earnings of the Mexican operations, after adjusting depreciation to U.S. standards, has been included in foreign income. Provision for deferred U.S. federal income taxes which would be payable upon repatriation of earnings, has been included in federal income tax expense.

During 1970, the Company acquired 50.1% of the common stock of Mass Feeding Corporation for $2,391,000. The carrying basis of the investment in Mass Feeding Corporation exceeds the Company's equity in the book value of underlying net assets measured at the date of acquisition by approximately $940,000.

PROVISION FOR FEDERAL INCOME TAXES

The provision for federal income taxes includes the following:

	52 Weeks Ended	
	Jan. 30, 1971	Jan. 31, 1970
	(In thousands)	
Federal income tax incurred	$13,947	$17,126
Investment tax credit for the year	203	899
Taxes currently payable	13,744	16,227
Deferred taxes	6,021	2,272
Total Provision	$19,765	$18,499

The deferred tax provision for fiscal 1970 includes approximately $2,700,000 related to credit sales. This deferred tax is included in Accrued federal income tax.

LONG-TERM DEBT

Long-term debt at January 30, 1971, was as follows:

	Rate	Total Debt	Due In 1 Year	Maturities
		(In thousands)		
Jewel Companies, Inc.:				
Insurance companies	6.875%	$30,000		1974-1993
Domestic banks	4.50	20,000		1972-1987
Foreign banks	7.0-9.0	19,534		1973-1974
Insurance companies	3.75-5.00	3,980	$491	1971-1978
Mortgage notes	4.63-5.75	4,010	250	1971-1985
		77,524	741	
Real estate affiliates (average rate)	6.1	64,865	3,250	1971-1998

Long-term debt matures as follows (in thousands):

	Jewel Companies, Inc.	Real Estate Affiliates
1972	$ 1,981	$ 3,529
1973	11,996	3,656
1974	13,066	3,766
1975	3,483	3,895
1976 and thereafter	46,257	46,769
	$76,783	$61,615

The long-term debt of the real estate affiliates is not a direct obligation of Jewel Companies, Inc., but is secured by the assignment of lease agreements between Jewel and these affiliates and will be fully amortized during the firm term of each lease, generally 20 years.

In 1970 the Company received the final $10,000,000 of a $30,000,000 loan commitment from three insurance companies under an agreement negotiated in 1967. Terms of the agreement specify an interest rate of 6⅞% and require repayment of $1,500,000 each year from 1974 through 1993.

During 1970, $2,500,000 of an $11,000,000 short-term loan, borrowed overseas in connection with the acquisition of an interest in MIDCO, S.A. in 1969, was repaid and the balance was replaced by a Euro-dollar revolving credit loan of $8,500,000 with a final maturity in 1974. The rate of interest varies with the Euro-dollar interbank rate.

Under terms of the most restrictive of the Company's existing loan agreements $29,472,000 of accumulated earnings are not restricted for the payment of cash dividends on common stock.

PREFERRED STOCK

Under the sinking fund provisions relating to the preferred stock, Jewel must acquire annually on or before each June 30, at least 3,000 shares. As of January 30, 1971, there were 18,701 shares in the treasury at a cost of $1,286,000, approximately $69 per share, covering the sinking fund requirements through June 30, 1974. The preferred stock may be redeemed in whole or in part on 30 days notice at $103 per share, plus accrued dividends.

COMMON STOCK

Common stock transactions during the year were as follows:

	Shares	Amount
	(In thousands)	
Balance at beginning of year	6,637	$42,415
Public offering	650	23,409
Issued for stock options	27	952
Other transactions	–	20
Balance at end of year	7,314	$66,796

During the year, 10,777 shares of treasury stock, costing $528,000, were issued primarily for the Company's Employee Stock Purchase Plan, reducing common shares in the treasury to 437 shares, costing $23,000, at January 30, 1971. The Company did not acquire treasury shares during 1970.

At January 30, 1971, there were 518,885 shares of common stock reserved, of which 101,078 shares were for employee stock purchase plan purchases and 417,807 shares were for stock options described in the following table:

	Number of Shares		
	Reserved	Granted	Available
Balance at beginning of year	245,157	213,450	31,707
Reserved	200,000	–	200,000
Granted	–	151,000	(151,000)
Exercised	(27,350)	(27,350)	–
Cancelled	–	(2,500)	2,500
Balance at end of year	417,807	334,600	83,207
Options exercisable January 30, 1971		99,800	

Outstanding options were granted at prices ranging from $26.38 to $53.50 per share, the approximate market price on the date of grant, become exercisable in equal installments over a four-year period and expire from five to ten years from the date of grant.

LEASE COMMITMENTS

Rentals for leased properties, primarily retail locations (excluding those leased from real estate affiliates), were $15,589,000 in 1970 and $12,981,000 in 1969 including rentals based on sales where applicable. As of January 30, 1971, the leases call for minimum payments of approximately $15,575,000 for fiscal 1971. Of this annual amount, 22% will have expired by the end of five years, 46% by the end of 10 years, 74% by the end of 15 years and 94% by the end of 20 years.

Jewel Companies, Inc.

Consolidated Ten Year Financial Summary

(Total dollars in thousands except per share figures)

*For the Year**	*1970*	*1969*	*1968*
Total sales	**$1,628,496**	$1,464,318	$1,332,719
Earnings:			
Operating income	**$ 50,277**	$ 45,587	$ 42,236
Foreign income	**3,272**	1,129	239
Interest income	**880**	746	598
Interest expense:			
Jewel Companies, Inc.	**(5,335)**	(3,440)	(2,393)
Real estate affiliates	**(3,586)**	(2,845)	(2,318)
Earnings before income taxes	**45,508**	41,177	38,362
Taxes on income	**21,546**	19,760	18,341
Net for the year	**23,962**	21,417	20,021
Earnings per common share**	**3.36**	3.22	3.01
Dividends per common share**	**1.50**	1.45	1.35
Retained earnings	**$ 12,806**	$ 11,549	$ 10,814
Depreciation	**20,390**	17,630	15,675
New property, plant and equipment (net):			
Jewel Companies, Inc.	**$ 37,749**	$ 37,722	$ 24,185
Real estate affiliates	**21,418**	7,399	11,743
*At the Year End**			
Net working capital	**$ 79,090**	$ 52,929	$ 64,652
Total assets	**486,059**	405,555	348,334
Long-term debt, due after one year:			
Obligations of Jewel Companies, Inc.	**$ 76,783**	$ 59,024	$ 39,517
Real estate affiliates	**61,615**	51,902	48,229
Preferred stock	**2,930**	2,945	2,993
Common shareholders' equity	**198,928**	161,206	149,652
Equity per common share**	**27.20**	24.33	22.63
Average number of common shares outstanding** (in thousands)	**7,104**	6,613	6,605

*In May, 1962, the fiscal year of the Company was changed to the Saturday nearest January 31 from the Saturday nearest December 31.

†53-week year; other years 52 weeks.

**Adjusted for stock splits.

1967†	*1966*	*1965*	*1964*	*1963*	*1962†*	*1961*
$1,244,417	$1,060,137	$ 933,431	$ 844,424	$ 798,436	$ 752,466	$ 678,259
$ 35,474	$ 32,289	$ 31,455	$ 29,279	$ 26,363	$ 27,881	$ 26,107
—	—	—	—	—	—	—
553	616	807	662	835	568	599
(2,121)	(1,759)	(1,746)	(1,808)	(1,717)	(843)	(901)
(2,078)	(1,832)	(1,536)	(1,360)	(1,164)	(829)	(697)
31,828	29,314	28,980	26,773	24,317	26,777	25,108
14,237	12,838	12,782	12,041	11,992	13,843	12,925
17,591	16,476	16,198	14,732	12,325	12,934	12,183
2.64	2.47	2.45	2.23	1.86	1.96	1.88
1.25	1.20	1.13	1.07	1.07	1.07	1.00
$ 9,004	$ 8,221	$ 8,407	$ 7,639	$ 5,311	$ 6,335	$ 6,243
14,587	12,989	11,829	10,643	9,725	8,762	7,925
$ 25,673	$ 21,739	$ 17,080	$ 18,451	$ 14,772	$ 17,333	$ 11,507
5,050	10,080	3,728	5,283	9,725	6,535	3,255
$ 62,366	$ 64,621	$ 64,336	$ 59,789	$ 66,168	$ 43,455	$ 50,412
312,980	285,269	270,604	251,413	235,579	199,370	185,091
$ 36,734	$ 35,371	$ 33,066	$ 34,749	$ 37,624	$ 16,145	$ 18,459
39,967	37,321	32,421	27,704	25,729	16,644	14,172
4,503	4,726	4,764	4,913	5,095	5,374	5,537
138,141	129,797	118,767	110,283	102,023	96,557	88,305
20.92	19.61	18.16	16.88	15.68	14.85	13.65
6,608	6,603	6,526	6,521	6,504	6,496	6,383